Major Personal Taxes In Kentucky

Cabinet for Economic Development

The Kentucky Department of Revenue administers the tax laws and collects tax revenue for the Commonwealth of Kentucky. While the summary information provided in this fact sheet constitutes a brief overview of the major personal taxes in Kentucky, more detailed information is available. The Kentucky Department of Revenue maintains many of its publications online (revenue.ky.gov). The site contains all pertinent tax information and is updated daily.

In addition to publications that address specific tax categories, the site contains access to the following:

- Kentucky Tax Forms and Instructions
- E-Registration, E-Filing, and E-Payments
- Contact Information (Including E-mail Addresses)
- Tax Laws and Regulations
- Newsletters and Guides
- On-Line Taxpayer Assistance; and
- Much, much more

State Individual Income Tax

Kentucky income tax is payable on income received in Kentucky by residents of other states, while all income received by residents is subject to tax. Under reciprocal tax agreements, residents of Illinois, Indiana, Ohio, and West Virginia are not required to pay Kentucky income taxes on salaries or wages earned in Kentucky. Virginia residents that commute daily to work in Kentucky are also exempt from Kentucky income taxes on wages and salaries. Residents of Michigan and Wisconsin are exempt from Kentucky income taxes on income from personal services. (KRS 141.070(2))

Tax Rates:	First	$3,000	-	2.0%
	$3,001 -	$4,000	-	3.0%
	$4,001 -	$5,000	-	4.0%
	$5,001 -	$8,000	-	5.0%
	$8,001 -	$75,000	-	5.8%
	Over -	$75,000	-	6.0%

Source: KRS 141.020(2)(b).

Kentucky income tax law is based on the federal income tax law in effect December 31, 2004. The Department of Revenue generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists. Exempted from Kentucky taxes are social security benefits; interest income from U.S. government bonds and securities; interest income from bonds issued by Kentucky state and local governments; capital gains on the sale of Kentucky turnpike bonds; certain railroad retirement benefits; and retirement, pension, and annuity income, with certain limitations. Interest income from bonds of other states and their local governments is taxable in Kentucky. There are other exemptions as well, but most have special purposes. See your tax preparer for detailed information. (KRS 141.010)

The pension exclusion for 2006 forward is 100 percent or $41,110, whichever is less. Retirees of previously exempt retirement systems of the federal government, Commonwealth of Kentucky, or any Kentucky local government must compute the amount of pension income attributable to service credit earned after December 31, 1997. This amount added to other nonexempt pension income is eligible for the exclusion. The pension exemption amount is not adjusted for inflation. (KRS 141.010 (10)(i)(2))

An exclusion from gross income of 100% of premiums used to provide health insurance for a taxpayer, spouse and dependents applies to premiums paid with after-tax dollars and includes any voucher or similar instrument. Premiums paid with pre-tax income (cafeteria plans and vouchers already excluded from wage income) are not deductible again. Medicare B premiums are deductible. (KRS 141.010(10)) An exclusion is also allowed for 100% of the cost of long term care insurance premiums.

Deductions from Kentucky income are similar to those allowed for federal income taxes. Federal and Kentucky state income tax payments can not be deducted. Kentucky taxpayers may either take a standard deduction or itemize their deductions.

The standard deduction for year 2006 is $1,970. The standard deduction is indexed to the Consumer Price Index (CPI). (KRS 141.081(2))

A credit of $20 is allowed for each taxpayer and each dependent claimed. An additional $40 credit is allowed for each person aged 65 or over. A $40 credit is allowed each person who is blind, and a $20 credit is allowed for a member of the Kentucky National Guard. (KRS 141.020 (3)) Child and dependent care expenses may be taken as a credit equal to 20 percent of the allowable federal credit for the same expenses. (KRS 141.067)

A tax credit in the amount of 25% of the allowable federal credit for qualified tuition and qualified related expenses paid to “eligible Kentucky education institutions” as defined in Section 25A of the IRC. Unused credit can be carried forward for up to 5 years. (KRS 141.069)

A “Certified Historic Structures” tax credit on income tax for the rehabilitation of a certified historic structure. The credit is 30% of the qualifying expenses for an owner-occupied property. There is a seven-year carry forward for any unused credit. The maximum credit for an owner-occupied property is $60,000. (Creates a new section of KRS 171.397)

A low-income credit is permitted for residents with a Kentucky Adjusted Gross Income (KAGI) of $25,000 or less. The credit ranges from 5% for a KAGI of $20,000 to $25,000 to 100% for a KAGI of $5,000 and under. A tax credit is given to taxpayers with a modified gross income of 133% or less of the “threshold amount” for the national poverty level for family sizes up to four. (KRS 141.066) The credits are as follows:

- At or below 100% threshold – 100% of the tax is allowed as a credit;
- 100% - 104% of threshold – 90% of the tax is allowed as a credit;
- 104% - 108% of threshold – 80% of the tax is allowed as a credit;
- 108% - 112% of threshold –70% of the tax is allowed as a credit;
- 112% - 116% of threshold –60% of the tax is allowed as a credit;
- 116% - 120% of threshold –50% of the tax is allowed as a credit;
- 120% - 124% of threshold –40% of the tax is allowed as a credit;
- 124% - 127% of threshold –30% of the tax is allowed as a credit;
- 127% - 130% of threshold –20% of the tax is allowed as a credit; and
- 130% - 133% of threshold –10% of the tax is allowed as a credit,
- Greater than 133% threshold – 0% of the tax is allowed as a credit.

A nonrefundable credit, equal to 40 percent of the cash contribution, is allowed investors making contributions to an investment fund certified by the Kentucky Economic Development Finance Authority (KEDFA). (KRS 141.020, 154.20-258)

Nonresident individuals that are partners of a general partnership, which does business both in Kentucky and outside of the state, are taxed in Kentucky only on the income of the partnership attributable to business conducted within the state. This is determined by using a three-factor (payroll, property and sales) apportionment with a double-weighted sales factor. (KRS 141.206)

Individual partners, members, or shareholders of pass-through entities subject to Kentucky's corporate income tax will continue to report their distributive share of income. They will also receive a credit for the tax paid on net income at the entity level based on the same ration of distributive share income. The credit is limited to the amount of tax the individual would have paid on the income that is passed through to the individual. A portion of the credit is refundable. The refundable portion of the credit is based on the difference between the top corporate rate and the top individual rate. (KRS 141.010, 141.020, 141.040, 141.206, 141.208).

Kentucky law allows limited liability companies to become limited liability partnerships. The bill deals with all aspects of setting up a limited partnership. It details everything from partnership agreements to state filing fees and most other rules in between. A tax specialist and an attorney should be consulted before making the change. (KRS 362, KRS 275)

Taxation is prohibited on investment income of nonresidents distributed by a qualified investment partnership. A "Qualified Investment Partnership" is a partnership formed to hold only investments that produce income that would not be taxable to a nonresident individual if held or owned individually. (KRS 141.206(12))

State and Local Property Taxes

Real estate and certain tangible personal property owned by individuals in Kentucky are subject to property taxes. Assessments are based on the fair cash value of taxable property on hand on January 1 (July 1, for property assessed by the city of Ashland). (KRS 132.020)

Property owners age 65 and over or totally disabled are allowed a homestead exemption on their principal owner-occupied residences, adjusted every two years for changes in the U.S. Consumer Price Index. The homestead exemption for 2006 is $29,400. Condominium units qualify for the exemption. (KRS 132.810)

Mobile homes owned by individuals other than dealers are classified as real estate, with property tax rates typically lower than those for tangible personal property. (KRS 132.751)

The major items of tangible personal property owned by individuals and taxable in Kentucky include motor vehicles, boats, motor homes, travel trailers, and airplanes. Household goods used in the owner's home are exempt from property taxes. (KRS, 132.010, 132.020, 132.260)

As of January 1, 2006, the intangible personal property tax is repealed. (KRS 132.208)

Average Rates Per $100 Of Assessed Valuation In Kentucky (2005)

Class of Property	State	County	City*	Schools	Total
Real Estate, Mobile Homes	$0.131	$0.2399	$0.2156	$0.4141	$ 1.0006
Motor Vehicles	0.450	0.2349	0.2453	0.5476	1.4778
Tangible Property	0.450	0.3042	0.2837	0.5032	1.5411

*Where taxed. Some cities do not levy property taxes on all of the classes of property that they are authorized to tax.

For specific locations, reference can be made to 2005 Kentucky Property Tax Rates.

Property tax bills are mailed to property owners in the fall, with taxes due by December 31. Owners pay property taxes on motor vehicles and motorboats at the time that licenses are renewed annually. Motor vehicle licenses are renewed during the birth month of the owner and motorboat licenses are renewed in April.

Local Occupational License Taxes

Kentucky cities, counties, and school districts may levy occupational license taxes on wages, salaries, commissions, and other compensation received by individuals. Communities in Kentucky apportion the tax basis as a percentage of locally earned compensation. A few cities and counties place a cap on the tax payable annually by an individual. The combined individual rates range from 0.25 percent to 3.55 percent of taxable earnings. (KRS 68.180, 68.197, 91.200, 92.280, 160.482-160.488, 160.605)

Exemptions

Cities of all classes and counties having a population of 30,000 or more are prohibited from collecting license fees or occupation taxes on profits, earnings, or distributions of an investment fund qualified under KRS 154.20-250 to 154.20-284 to the extent the income would not be taxable to an individual investor. (KRS 68.197)

Counties having a population of 30,000 or more and cities are prohibited from collecting license fees or occupational taxes on investment partnerships if that investment would not be taxable if individually held. (KRS 67.083, 68.180, 68.197 – 68.199, 91.200, 92.281)

For current occupational license tax rates check the community information section of the Kentucky Cabinet for Economic Development's web site.

State Retail Sales and Use Tax

A 6.0 percent state tax is levied on retail sales to consumers and on leases and rentals of tangible personal property in Kentucky. A 6.0 percent state use tax is levied on out-of-state purchases of tangible personal property for consumption in Kentucky, unless the property is otherwise exempt. Non-business purchasers may remit their use tax liability with the individual income tax return. Major exemptions are motor fuels; food and food ingredients (grocery food); prescription medicines; medical supplies such as insulin and diabetic supplies, medical oxygen, colostomy supplies, prosthetic devices, and mobility enhancing equiment; residential utilities (except telephone); and fuels used for residential purposes. There are some industry specific exemptions. Some of these industry specific exemptions include the equine and motor carrier industries as well as others. Contact a local tax professional or the Kentucky Department of Revenue (www.revenue.ky.gov) for a more detailed list of these exemptions. Local sales taxes are not levied in Kentucky. (KRS 139.200, 139.470, 139.472, 139.480)

Sales tax is also imposed on a limited number of services such as hotel accommodations, admissions, telecommunications services, and sewer services. (KRS 139.100, 139.200)

State Motor Vehicle Usage Tax

Motor vehicle usage tax of 6.0 percent of a vehicle's taxable value is levied when a motor vehicle is titled and registered. Sales tax of 6.0 percent of the sales price of the vehicle is levied when a vehicle is titled in Kentucky for non-highway use. Exempted from the motor vehicle usage tax are transfers of ownership between husband and wife, parent/stepparent and child/stepchild, and grandparent and grandchild (KRS 138.450, 138.460, 138.470(3)(6)). There are an additional 17 motor vehicle usage tax exemptions provided in KRS 138.470.

The taxable value of new vehicles is the selling price as provided in a notarized affidavit signed by both the buyer and seller. If an affidavit is not submitted, 90 percent of the manufacturers' suggested retail price will be used. Trade-in credit is not given. (KRS138.450)

The taxable value of used vehicles is the total consideration given as provided in a notarized affidavit signed by both the buyer and seller. If an affidavit is not submitted, the average retail value listed in the prescribed automotive price reference value will be used. Trade-in credit is allowed. Vehicles entering Kentucky which were previously registered in another state or country by the registrant are taxed using average trade-in value from the reference manual prescribed by the Kentucky Department of Revenue. Credit is given for similar taxes paid in another state by the registrant. Vehicles received as a gift are also taxed on the average trade-in value from the reference manual prescribd by the Department. (KRS 138.450 – 138.460, 138.990, 186.190, 186.232, 190.990)

State and Local Consumer Excise Taxes
State excise taxes are included in the total price paid by consumers at the time of purchase of taxable goods and services, such as gasoline and other motor fuels, alcoholic beverages, racetrack admissions, telecommunication services, multichannel video and audio programming services, and pari-mutuel betting. Local taxes on transient lodging and restaurant sales are paid by the consumer when paying for the services. (KRS 138.130, 138.140, 138.210, 138,480, 138,510, 142,400, 243.720 et. seq.) Utility gross receipts license taxes, for school funding, are imposed on utilities (electricity, natural gas, water, cable service and telephone). The tax is generally collected by the utility.

State Inheritance and Estate Taxes

Inheritance Taxes
Kentucky levies an inheritance tax on the right to receive property from a decedent's estate based on the Add-relationship of the beneficiary to the decedent and the fair cash value of taxable property passing at the decedent's death. Under certain conditions, agricultural land may be reported at its agricultural value instead of fair cash value. (KRS 140.010 and 140.310)

Taxable property includes all types of property which the decedent owns or has an interest in and the proceeds of life insurance policies (except U.S. government policies) payable to the assured or his or her estate. With the exception of jointly owned certificates of deposit, transfers of Delete-taxable property by the decedent within three years prior to death are considered by state law to be made in contemplation of death and are subject to inheritance tax add-in its entirety. (KRS 140.010, 140.020, 140.030)

The total inheritable interest of a surviving spouse is exempt from Kentucky inheritance taxes. (KRS 140.080)

Kentucky inheritance tax rates on the net inheritance (exemption charged at the lowest brackets) for each class of beneficiaries is given below: (The total inheritable interest of Class A beneficiaries is exempt for any decedents dying after June 30, 1998).

Net Inheritance				Class B	Class C
First	$10,000			4%	6%
	$10,001	-	$20,000	5%	8%
	$20,001	-	$30,000	6%	10%
	$30,000	-	$45,000	8%	12%
	$45,001	-	$60,000	10%	14%
	$60,001	-	$100,000	12%	16%
	$100,001	-	$200,000	14%	16%
Over	$200,000			16%	16%

Source: KRS 140.070, 140.080

Beneficiaries of estates in Kentucky are allowed cash exemptions from their distributive shares of the net estate. The exemptions are chargeable against the lowest tax rate brackets for each beneficiary. Beneficiaries are divided into three classes.

Class A Beneficiaries	Exemption
Add-Spouse	Total Inheritable Interest
Infant child by blood or adoption; Delete incompetent child by blood or adoption and stepchild. Add-Child by blood declared incompetent, child adopted during infancy and declared incompetent, child adopted during adulthood who was reared during infancy and declared incompetent.	
Parent; adult child by blood, stepchild; adult child adopted during infancy; child adopted during adulthood-reared by decedent during infancy; grandchild of any of these; brother, sister Delete or brother or sister by blood or half-blood	Total Inheritable Interest
Class B Beneficiaries Nephew or niece by blood or half-blood; daughter-in-law; son-in-law; aunt; uncle; great-grandchild who is the grandchild of a child by blood, of a stepchild or of a child adopted during infancy	$1,000
Class C Beneficiaries All other individuals not included in classes A and B; educational, religious, and other institutions not otherwise exempted	$500

Source: KRS 140.070, 140.080

Estate Taxes
When the state death tax credit under federal estate tax law exceeds the inheritance tax, the difference between the state death tax credit and the net inheritance tax paid must be paid as an estate tax. Payments of Kentucky estate taxes are made at the same time that state inheritance taxes are paid. (KRS 140.130)

Under the Federal Economic Growth and Tax Reconciliation Act of 2001, the credit for state death taxes was reduced by 25% each year starting in 2002 and was eliminated completely as of January 1, 2005. Thus, for dates of death on or after January 1, 2005, there is no Kentucky estate tax due. However, the phase-out of the state death tax credit was not made permanent. Unless federal legislation is passed the state death tax credit, as well as Kentucky estate tax, will be reinstated for dates of death occurring after December 31, 2010.

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